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A Guide to the Proposed Seniors Benefit

A Report by the
National Council of Welfare

Summer 1996

Canada



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A GUIDE TO THE PROPOSED SENIORS BENEFIT

**A Report by the
National Council of Welfare**

Summer 1996



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INTRODUCTION

The budget speech of March 6, 1996, proposed sweeping changes in the benefits provided to seniors by the federal government. Beginning in the year 2001, the Old Age Security pension and Guaranteed Income Supplement for people 65 and older would be combined into a new Seniors Benefit. At the same time, the special tax credit for people 65 and older and the credit for the first \$1,000 in income from an occupational pension plan would disappear from the income tax system.

The proposals as a package are complex, and their combined impact on seniors in different financial circumstances is not always obvious. The first half of this report explains in detail the gains and losses seniors can expect if the proposals become law. The second half of the report explores questions and concerns about the budget proposals. How much money should taxpayers provide through the federal government to seniors with no other sources of income? What is a reasonable income level for reducing or eliminating benefits to seniors? Should benefits be based on family rather than individual income? What transitional arrangements should be available to today's seniors? Is the federal government prepared to listen seriously to the opinions of ordinary Canadians about the budget proposals?

The National Council of Welfare hopes this report will help Canadians of all ages understand the budget proposals better and make their views known to the federal government.

I. THE 1996 BUDGET AND BENEFITS FOR SENIORS

The budget speech of March 6, 1996, proposed sweeping changes in the way the federal government provides benefits to seniors. Some of the changes would be reflected in the cheques that Ottawa sends to seniors each month, and others would be reflected once a year in the amount of income taxes seniors pay. Both kinds of changes would come into effect on Jan. 1, 2001.

The centrepiece of the federal proposals is a new Seniors Benefit for people 65 and older that would replace the current Old Age Security pension and Guaranteed Income Supplement. The main features of the new benefit are as follows:

- The maximum benefit for low-income seniors would be \$120 a year per household higher than Old Age Security and the Guaranteed Income Supplement combined. Low-income single seniors would get an extra \$120 a year, and low-income senior couples would share the extra \$120.
- The income threshold for reducing benefit entitlements would drop sharply and would have the effect of sharply reducing the amounts received by seniors in middle-income and upper-income ranges.
- Family income, rather than individual income, would be used for calculating all benefits.
- The entire new benefit would be non-taxable.
- All features of the benefit would increase automatically in line with the cost of living.

The Spouse's Allowance program for low-income people 60 to 65 who are married to recipients of the Guaranteed Income Supplement and low-income widows and widowers 60 to 65 would continue to operate once the new Seniors Benefit is in place. Widows and widowers would also get an additional \$120 a year under the Spouse's Allowance.

The federal proposals include plans to eliminate two income tax changes affecting seniors: the age credit for people 65 and older and the pension income credit that reduces the taxes of people who get income from occupational pension plans.

Finally, the budget speech proposed special transitional proposals that would apply to people who were 60 or older by Dec. 31, 1995 - in other words, 65 or older by Dec. 31, 2000, on the eve of the new system. These people would have the choice of receiving Old Age Security and the Guaranteed Income Supplement under current arrangements for as long as they live or receiving the new Seniors Benefit. Whichever option they choose, however, they would not be able to claim an income tax credit for age or pension income.

Spouses of people who decided to continue under Old Age Security and the Guaranteed Income Supplement would also continue under OAS and GIS, regardless of their age.

The federal government plans to introduce legislation in Parliament concerning the new system of benefits and the new tax changes later this year. The Minister of Finance said the public would have a chance to comment on the proposals before a Parliamentary committee.

The Proposed New Seniors Benefit

The new Seniors Benefit borrows a number of features from the current system. The poorest seniors would receive the largest benefits, and the benefit structure overall is tied to the amount of income seniors receive from other sources.

Table 1 on the next page shows the proposed Seniors Benefit at different levels of outside income for a single pensioner and a pensioner couple.

A single pensioner with no other sources of income would receive \$11,420 a year in 2001 - \$120 a year more than the estimated value of the Old Age Security pension in 2001 plus the Guaranteed Income Supplement at the maximum rate for single people. The Seniors Benefit would be reduced by 50 cents for every dollar of outside income until it fell to the level of \$5,160 a year - the same as the estimated Old Age Security pension in 2001. Table 1 shows a benefit of \$5,160 for the single pensioner with outside income of \$15,000, \$20,000 and \$25,000.

Once outside income exceeded \$25,921 a year, the Seniors Benefit would be reduced by 20 cents for every dollar of additional income, and the entire benefit would be gone once outside income reached \$51,721.

TABLE 1
THE PROPOSED NEW SENIORS BENEFIT, 2001

Income Aside from the Seniors Benefit	Single Person 65 and Older	Married Couple 65 and Older
\$0	\$11,420	\$18,440
\$5,000	\$8,920	\$15,940
\$10,000	\$6,420	\$13,440
\$15,000	\$5,160	\$10,940
\$20,000	\$5,160	\$10,320
\$25,000	\$5,160	\$10,320
\$30,000	\$4,344	\$9,504
\$35,000	\$3,344	\$8,504
\$40,000	\$2,344	\$7,504
\$45,000	\$1,344	\$6,504
\$50,000	\$344	\$5,504
\$60,000	\$0	\$3,504
\$70,000	\$0	\$1,504
\$80,000	\$0	\$0

The maximum Seniors Benefit for a couple would be \$18,440 - \$120 a year more than the estimated value of two Old Age Security pensions and the maximum Guaranteed Income Supplement for a couple at the married rate. The Seniors Benefit would be reduced by 50 cents

for every dollar of outside income until it fell to \$10,320 - the same as two Old Age Security pensions in 2001. From outside family income of \$25,921, the benefit would be reduced by 20 cents for every dollar of outside income until it finally disappeared at outside income of \$77,521.

All the outside income figures in the table are incomes for the previous year. The federal government has promised to allow immediate adjustments in benefits in the case of marriage breakdown, the death of a spouse or a permanent drop in income. That would have the effect of keeping benefits more or less up to date with the financial circumstances of pensioners.

The single biggest differences between the current system and the new Seniors Benefit relate to the way benefits are reduced as outside income rises. There are also differences in the tax status of the new benefit and the degree of cost-of-living protection to be provided.

Benefit Reductions as Income Rises. There are two different formulas proposed for the new Seniors Benefit to reduce benefits as a person's outside income rises. The first formula would apply only at the low end of the income scale and is the same as the formula already used to make reductions in the Guaranteed Income Supplement as outside income increases. The second formula would apply only to seniors who are reasonably well off and is somewhat akin to the "clawback" now applied to the Old Age Security pension.

Since 1989, Old Age Security has been subject to a clawback or repayment provision that reduces or eliminates benefits for high-income seniors. For the tax year 1995, seniors had to repay some of their benefits at income tax time if their net incomes were above \$53,215. The clawback was 15 cents of the Old Age Security pension for every dollar of net income above \$53,215. When net income reached \$84,484, the entire pension was clawed back.

Income for the purposes of the clawback is individual net income on the federal income tax form. Two pensioners each with outside income of \$53,215 or \$106,430 together would escape the clawback.

Under the new Seniors Benefit, the federal government would reduce benefits to seniors starting at \$25,921 of net family income. The reduction rate would be 20 cents, rather than 15 cents, of the benefit for every additional dollar of net income. Benefits would disappear entirely at \$51,721 for a single pensioner and \$77,521 for a pensioner couple.

Strictly speaking, the reduction under the new Seniors Benefit would not be a clawback because the money would not be paid out during the year and reclaimed at tax time. It simply would not be paid out in the first instance.

Tax Status of Benefits. Under the current system, the Old Age Security pension is taxable and the Guaranteed Income Supplement is non-taxable. The entire new Seniors Benefit would be non-taxable.

The tax status of any benefit is an important factor in determining its real value to recipients. Under the current system, seniors with little or no income aside from the Old Age Security pension and Guaranteed Income Supplement pay no tax on OAS, because they are too poor to pay income taxes at all. Seniors who are better off pay taxes on OAS based on their overall taxable incomes.

Seniors in the lowest federal tax bracket pay a basic federal tax of 17 percent on OAS and other taxable income, plus a federal surtax of three percent. Seniors who are in higher tax brackets pay a basic federal tax of 26 percent on taxable income in excess of \$29,590 and 29 percent on taxable income in excess of \$59,180.

Both territories and all provinces except Quebec have their own income tax systems which are linked directly to the federal system. Provincial and territorial tax rates in 1995 ranged from 45 percent of basic federal tax in the Northwest Territories to 69 percent of basic federal tax in Newfoundland. Quebec has its own provincial income tax system that is not connected with the federal tax system.

An Old Age Security pension of \$5,160, for example, would be worth considerably less to a senior who had outside income and had to pay income tax. Seniors in the 17 percent tax bracket would pay \$877 in basic federal tax on OAS, plus a federal surtax of \$26. Assuming a provincial tax rate of 55 percent of basic federal tax, they would also pay \$482 in provincial income taxes on OAS and perhaps provincial surtaxes as well. After deducting federal and provincial income taxes, an Old Age Security pension of \$5,160 would have a net value of \$3,774.

The fact that the new Seniors Benefit would be non-taxable means its real value would be higher for many seniors than the value of Old Age Security under the current system.

Indexation. The current Old Age Security pension and Guaranteed Income Supplement are both fully indexed to inflation, as measured by the Consumer Price Index of Statistics Canada. Benefits increase every three months whenever the cost of living goes up. The new Seniors Benefit would also be fully indexed.

The one difference in indexation between the current and proposed benefits has to do with the income threshold where benefits start being reduced. The clawback threshold of \$53,215 for Old Age Security goes up only for inflation in excess of three percent a year. Inflation has been below three percent in recent years, so the threshold has not changed at all since 1993.

The new Seniors Benefit would avoid this problem because its threshold of \$25,921 would be fully indexed to inflation. Without full indexation of the threshold, more and more pensioners would find themselves subject to cuts in benefits year after year.

Tax Changes to Accompany the Seniors Benefit

As part of the package proposed by the federal government, the age and pension income tax credits in the federal income tax system would be eliminated when the new Seniors Benefits is introduced in the year 2001.

Current tax law allows most seniors 65 and older to claim a tax credit by virtue of their age. The amount that appeared on the income tax form in 1995 was \$3,482, but the actual federal tax break was 17 percent of \$3,482 or \$592. Adding in savings on the federal surtax and provincial income tax savings at a rate of 55 percent of basic federal tax, the overall tax savings from the age credit amounted to \$935 in 1995.

However, the maximum age credit goes only to seniors with net incomes below \$25,921. Seniors with higher incomes have the gross amount of the credit reduced by 15 cents for every dollar over \$25,921. Seniors with net incomes of \$35,921 or \$10,000 higher than the threshold,

for example, lose \$1,500 of the basic amount on the tax form. The entire credit disappears once net income reaches \$49,134.

A second credit aimed primarily, but not exclusively, at seniors that is scheduled to disappear in 2001 is the pension income amount to eliminate taxes on the first \$1,000 of income from an occupational pension plan or personal retirement income plan. Occupational pension plan means a private or company pension plan, not Old Age Security, the Canada Pension Plan, the Quebec Pension Plan or the Saskatchewan Pension Plan.

For people 65 and older, the credit can be used to eliminate taxes on the first \$1,000 in pension payments from an occupational pension plan, annuity payments from a registered retirement savings plan (RRSP) or payments from a registered retirement income fund (RRIF). It cannot apply to lump-sum withdrawals from a pension plan or RRSP. For people under 65, the pension income credit is available in the case of life annuity payments from an occupational pension plan.

The pension income credit is claimed only by people with taxable income. The maximum tax break is 17 percent of \$1,000 or \$170 in federal tax breaks. With savings on the federal surtax and provincial taxes added in, the total tax break is \$269.

Under the current tax system, Revenue Canada allows married seniors with little or no taxable income to transfer any unused age or pension income credits to their spouses. That has the effect of doubling the maximum tax break for some couples. For example, a one-income senior couple with pension income of \$2,000 could claim a pension income amount of \$1,000 for each spouse, even if only one of the spouses actually received pension income and only one was subject to income tax.

II. THE OVERALL IMPACT OF THE PROPOSALS

The new Seniors Benefit and the elimination of the age and pension income tax credits are clear enough by themselves, but the combined impact of the changes in benefits and taxes is anything but clear in the Finance Department paper published with the 1996 budget speech. In general, most low-income seniors would be slightly better off under the new system. Some middle-income seniors and all upper-income seniors would be worse off.

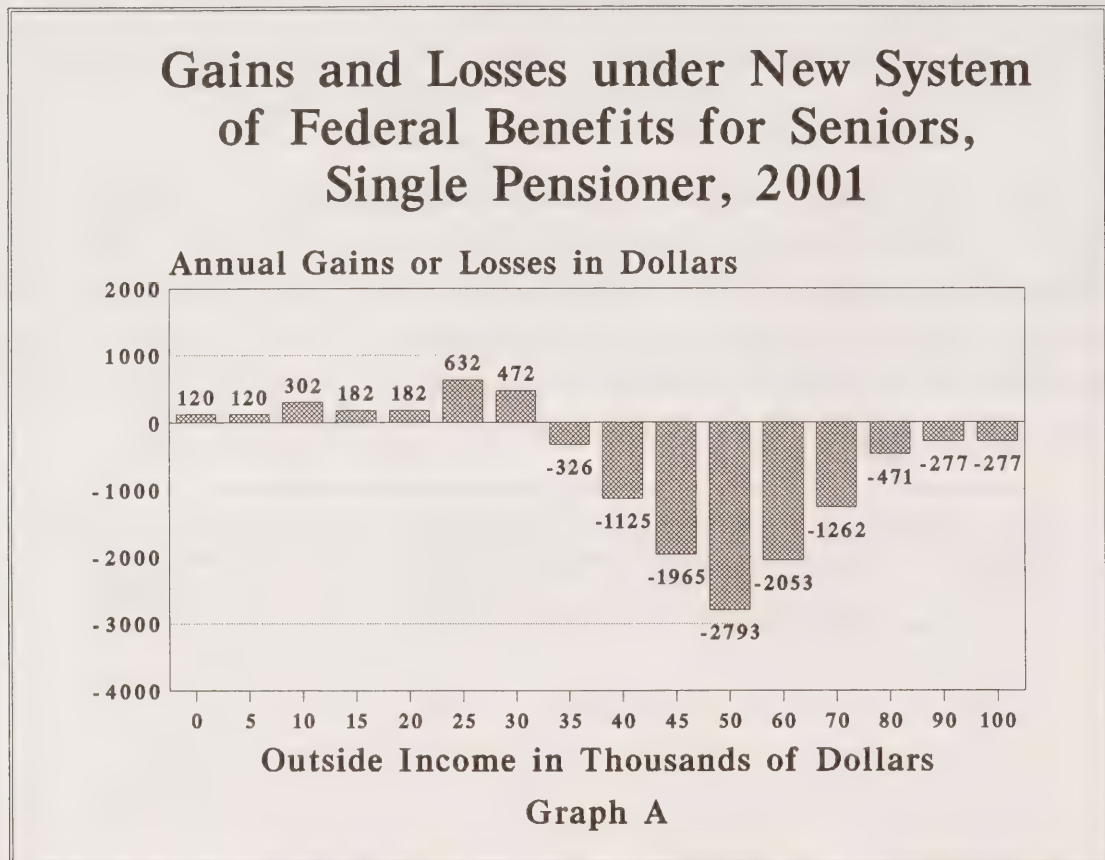
In order to determine the precise impact of the new system, the National Council of Welfare did detailed calculations for single pensioners, one-income pensioner couples and two-income pensioner couples at different income levels in 2001. Part of the work amounted to filling out a "mini" income tax form for each family type at 16 different levels of income, from no outside income to \$100,000. The results of the calculations are shown in Graphs A, B and C on the pages that follow. More detailed information is given in the appendix.

On the benefits side of the calculations, the current system includes a taxable Old Age Security pension with a clawback starting at \$53,215 and a non-taxable Guaranteed Income Supplement for low-income seniors. We used the Finance Department's estimates of benefit levels in 2001 based on their own projections of inflation between now and then.

On the tax side, the current system includes a personal credit, a spousal credit where applicable, an age credit and a pension income credit for \$1,000 of income from an occupational pension plan. In the case of married seniors, we calculated transfers of age and pension income credits where possible. Federal surtaxes were added to the basic federal tax. Provincial and territorial taxes were calculated at a rate of 55 percent of basic federal tax. The tax brackets and other features of the tax system for 2001 were assumed to be the same as for 1995, because they change only when inflation exceeds three percent a year.

The new system consists of the non-taxable Seniors Benefit as described in the previous chapter and the tax system described above, minus the age and pension income credits and credit transfers. We also calculated additional GST credits for those seniors who would be eligible for additional benefits because the new Seniors Benefit would not be counted as income in the calculation of GST credits.

Graph A shows gains and losses for single seniors under the new system of benefits and tax breaks as compared to the current system. The bars in the graph represent gains and losses at different levels of income aside from Old Age Security and the Guaranteed Income Supplement under the current system and aside from the Seniors Benefit under the new system.

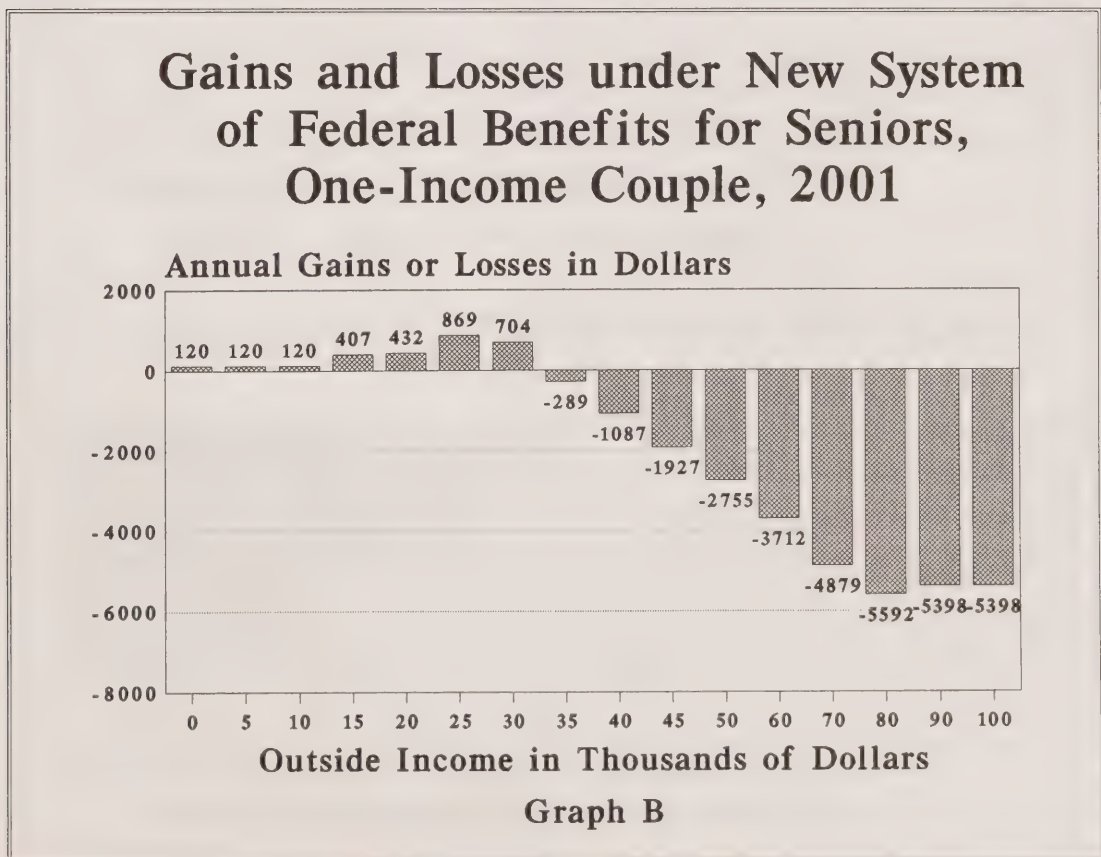


Single pensioners with little or no outside income would wind up \$120 a year ahead under the new system because of the extra \$120 that is part of the new Seniors Benefit. Single pensioners with outside income as high as \$30,000 a year in the graph would also see modest increases in net benefits under the new system. Most of the gains are because the new benefit would be non-taxable. The gains associated with a non-taxable benefit are greater than the losses incurred from the elimination of the age and pension income credits.

Losses set in for the single pensioners in Graph A beginning with outside income of \$35,000. They are largely due to the fact that the new Seniors Benefit would be reduced after

other income exceeds \$25,921 a year. The biggest loss shown in the graph is \$2,793 for the single pensioner with outside income of \$50,000. After that, the losses quickly taper off. Losses for the single pensioners with outside income of \$90,000 or \$100,000 would be only \$277. These pensioners have their entire Old Age Security pensions clawed back under the current system, and they are too wealthy to take advantage of the age credit. The losses of \$277 represent additional federal and provincial taxes due to the elimination of the pension income credit.

Graph B shows the impact of the new system on a one-income senior couple. For the purposes of our calculations, we assumed that one spouse received all the income aside from Old Age Security and the Guaranteed Income Supplement or the new Seniors Benefit. We allowed spousal credits to reduce the tax liability of the spouse with the outside income under both the current and proposed new tax systems. Under the current system, we used the maximum possible age and pension income credits and transfers of credits to reduce the tax of the spouse with outside income.

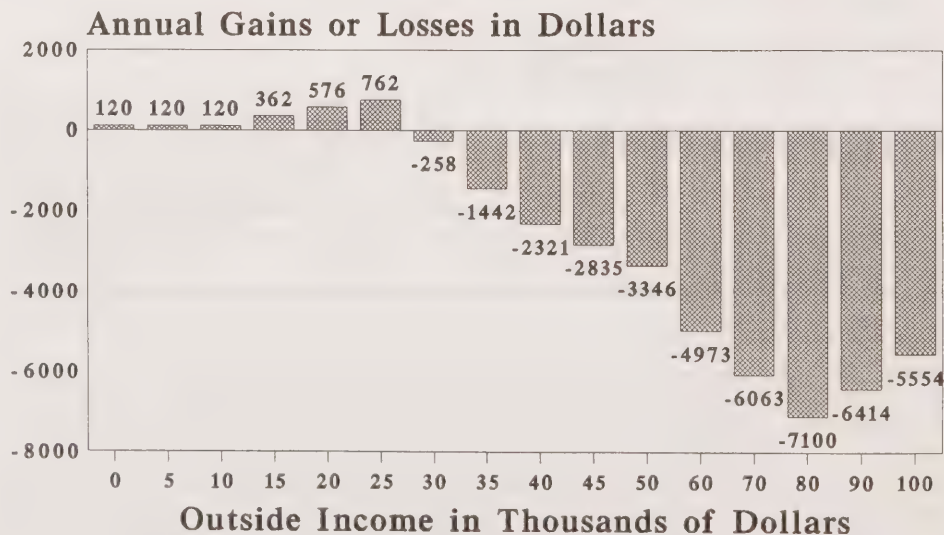


For the couples in Graph B with low incomes, there would be modest gains under the new system. Losses begin with the couple at \$35,000 and become quite hefty as outside income continues to rise. The main reason for this is the Seniors Benefit is reduced after \$25,921 in outside family income. The biggest loss shown in the graph is \$5,592 for the couple with \$80,000 in outside income.

Under the current system, the spouse with no outside income would keep the full Old Age Security pension valued at \$5,160 in 2001. Only the spouse with substantial outside income would have the Old Age Security pension clawed back. Under the new system, both spouses would see their Seniors Benefits reduced after their combined incomes topped \$25,921, and the benefit would be gone entirely when their combined outside income hit \$77,521.

The impact of the new system is much the same for a two-income pensioner couple as shown in Graph C. The calculations assumed that one of the spouses got 60 percent of the family's total outside income and the other got 40 percent. Taxes and benefits under the current and proposed systems were calculated for each spouse individually and added together afterward.

Gains and Losses under New System of Federal Benefits for Seniors, Two-Income Couple, 2001



Graph C

Once again, couples at the lower end of the income scale would wind up with modest increases in benefits. Losses would begin at the bar representing \$30,000 in combined outside family income and would quickly become substantial. The largest loss shown is \$7,100 for the couple with outside family income of \$80,000 - \$48,000 for one spouse and \$32,000 for the other. Under the current system, neither spouse would be subject to a clawback on Old Age Security. Under the new system, their combined income would be high enough to cause all their Seniors Benefits to disappear.

Basing Benefits on Family Income

To get a better idea of the impact of a shift to family income, we took the new Seniors Benefit for the two-income couples in Graph C and compared it with similar benefits calculated on the basis of individual income. One of the spouses was assumed to have 60 percent of total outside family income, and the other 40 percent. The results are shown in Table 2 on the next page.

The table begins at outside income of \$25,000 - just below the threshold of \$25,921 where benefits begin to be reduced. At outside incomes below \$25,921, there would be no difference between benefits that are calculated according to family income and benefits based on individual income.

The differences for the couples in Table 2 begin with the couples with \$30,000 in outside income, and the differences become sizable as outside income continues to increase.

Under the Seniors Benefit as proposed in the budget speech, the entire benefit disappears before family income hits \$80,000. Under a comparable benefit based on individual income, benefits would decline much more gradually. The spouse with 60 percent of outside income would continue to receive a small benefit when family income is \$80,000, because individual income is only \$48,000. The spouse with 40 percent of family income would still receive \$2,344 in benefits at family income of \$100,000, because individual income is only \$40,000.

TABLE 2
THE NEW SENIORS BENEFIT,
FAMILY INCOME BASE VS. INDIVIDUAL INCOME BASE, 2001

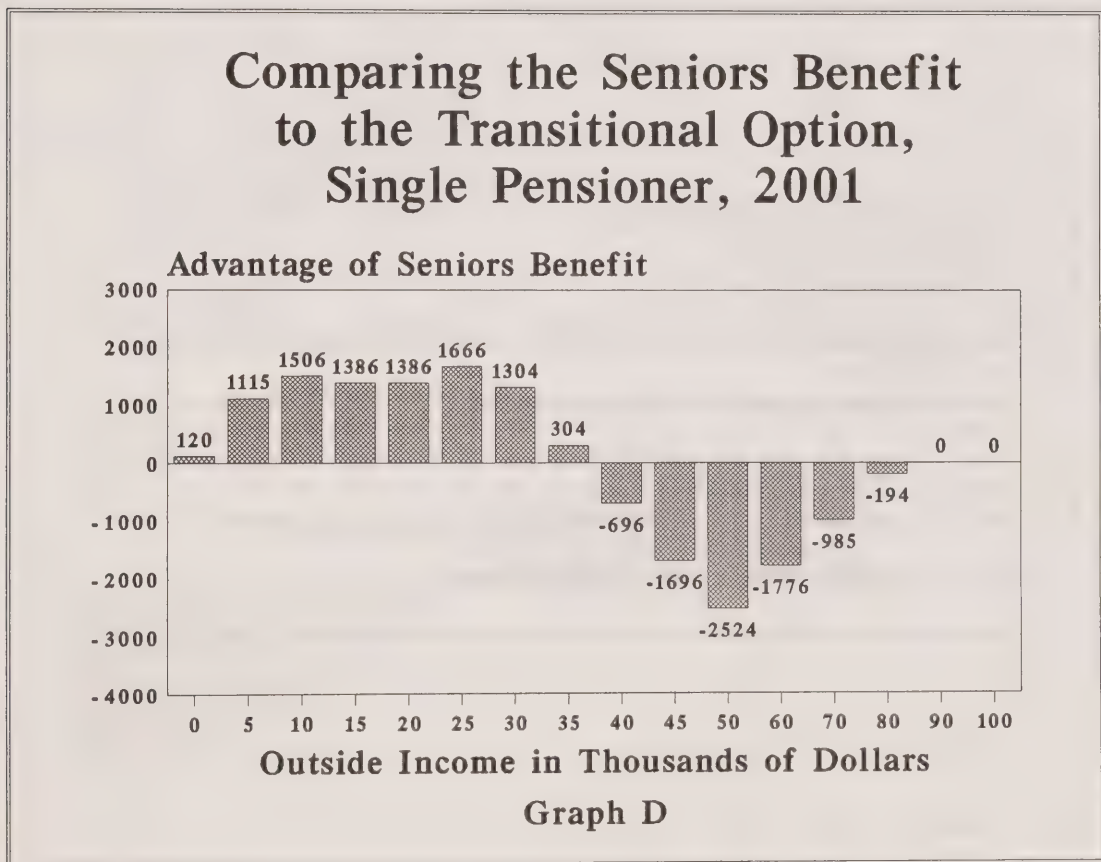
	Family Income Base		Individual Income Base		
	Total Seniors Benefit	One-Half Benefit per Spouse	Benefit for Spouse with 60% of Income	Benefit for Spouse with 40% of Income	Total of Individual Benefits
\$25,000	\$10,300	\$5,160	\$5,160	\$5,160	\$10,320
\$30,000	\$9,504	\$4,752	\$5,160	\$5,160	\$10,320
\$35,000	\$8,504	\$4,252	\$5,160	\$5,160	\$10,320
\$40,000	\$7,504	\$3,752	\$5,160	\$5,160	\$10,320
\$45,000	\$6,504	\$3,252	\$4,944	\$5,160	\$10,104
\$50,000	\$5,504	\$2,752	\$4,344	\$5,160	\$9,504
\$60,000	\$3,504	\$1,752	\$3,144	\$5,160	\$8,304
\$70,000	\$1,504	\$752	\$1,944	\$4,744	\$6,688
\$80,000	\$0	\$0	\$744	\$3,944	\$4,688
\$90,000	\$0	\$0	\$0	\$3,144	\$3,144
\$100,000	\$0	\$0	\$0	\$2,344	\$2,344

Options for People 60 and Older

The budget proposals include transitional arrangements for people who were 60 or older before the end of 1995 and their spouses. They would have the option of receiving Old Age Security and the Guaranteed Income Supplement rather than the new Seniors Benefit if OAS and GIS would provide larger benefits.

The transitional arrangements are the result of promises by the Prime Minister that seniors would not have to worry about losing their pensions as a result of any overhaul of the system. Because of the nature of the federal proposals, however, only well-to-do seniors would have a reason to stick with the current system.

Graph D shows the financial advantages and disadvantages of the Seniors Benefit as compared to the transitional arrangements for single pensioners at different levels of income in 2001. The calculations include both benefits and taxes as in the earlier part of this chapter. However, the age and pension income credits would be gone for the seniors who choose the transitional arrangements as well as seniors who opt for the new Seniors Benefit.

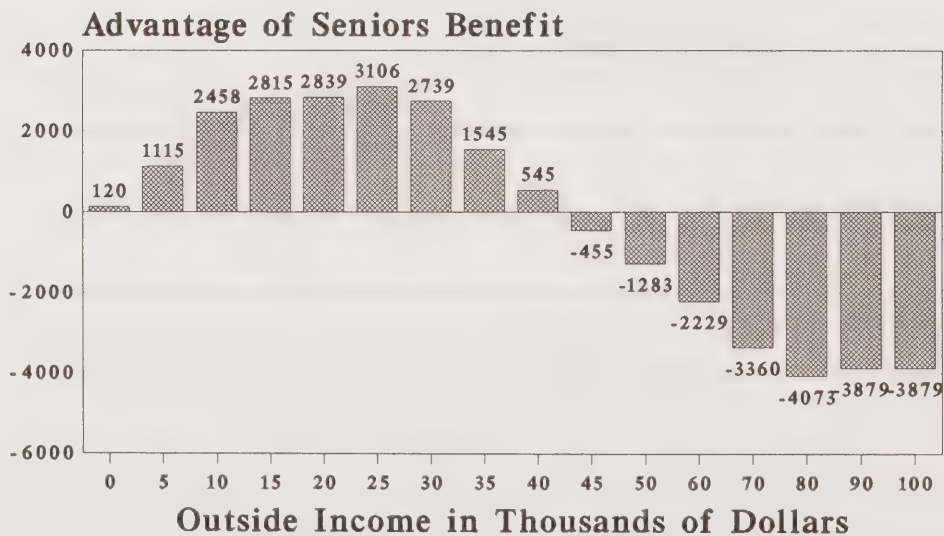


Single seniors with incomes through \$35,000 in the graph would be better shifting to the new Seniors Benefit. That is largely because the new benefit would not be subject to tax. Single seniors with incomes from \$40,000 through \$80,000 would be better off sticking with the

current system. That is because the new Seniors Benefit starts getting reduced once outside income exceeds \$25,921. At middle-income and upper-middle income ranges, single pensioners would receive more under the current system - even with a taxable Old Age Security pension and a clawback starting at \$53,215. The single seniors at outside incomes of \$90,000 and \$100,000 would get no benefits under either Old Age Security or the new system.

The impact is much the same for the one-income couples shown in Graph E, except for the very wealthiest couples. One-income couples at lower income ranges would be better off with the non-taxable Seniors Benefit. Couples with higher incomes would be better off with Old Age Security. The spouse with all the outside income would wind up with no pension at all in the upper income ranges of Graph E because of the clawback, but the spouse with no outside income would continue to receive a full OAS pension.

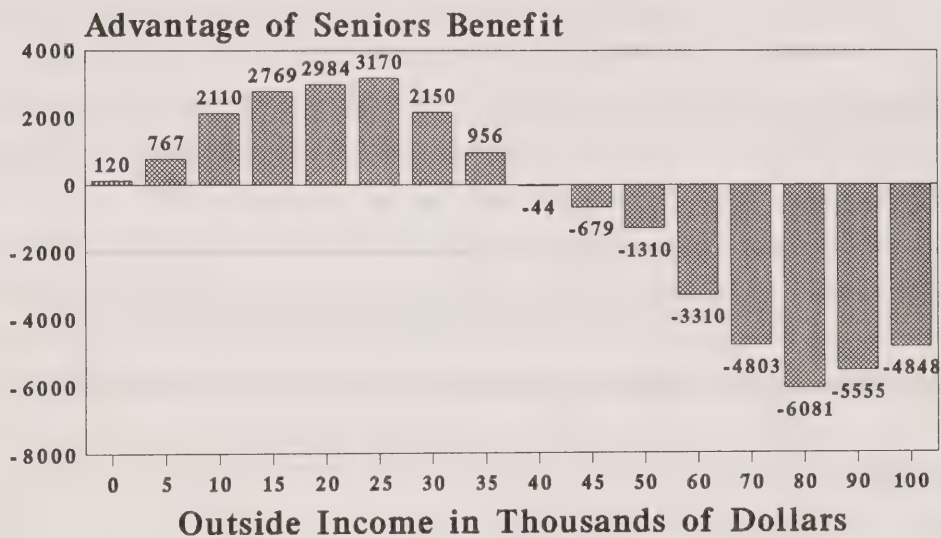
Comparing the Seniors Benefit to the Transitional Option, One-Income Couple, 2001



Graph E

The same general pattern holds true for two-income couples as shown in Graph F. At lower income levels they would get higher benefits from the Seniors Benefit. At upper income levels, they would be better staying with Old Age Security. Even at combined family income of \$100,000, the spouse with outside income of \$60,000 would still get a partial Old Age Security pension, and the spouse with outside income of \$40,000 would get a full pension.

Comparing the Seniors Benefit to the Transitional Option, Two-Income Couple, 2001



Graph F

III. QUESTIONS AND CONCERNS ABOUT THE FEDERAL PROPOSALS

The National Council of Welfare sees merit in the reforms proposed in the 1996 budget speech. However, we would like to promote further discussion on several issues raised by the proposals. We have concerns about the small size of the increase proposed for the poorest seniors and about the extent benefits would be "targeted" under the new system. We also wonder about the federal government simply taking money out of the "envelope" for seniors rather than redistributing some of the money to seniors with the greatest needs.

Help for the Very Poorest Seniors. Although poverty rates for seniors have fallen dramatically within the last generation, there are still pockets of poverty that need to be addressed by governments. The National Council of Welfare's most recent report on poverty, Poverty Profile 1994, showed that 44.1 percent of unattached women 65 and older and 25.2 percent of unattached men 65 and older were poor in 1994. The poverty rate for senior couples was only 6.8 percent.

The National Council of Welfare uses the low income cut-offs of Statistics Canada (1986 base) as its measure of poverty. The cut-offs vary with the size of the community and are considerably higher in large cities than in small towns or rural areas, while federal benefits for seniors are the same in all parts of Canada. The Old Age Security pension and Guaranteed Income Supplement are already high enough to get seniors in rural areas close to the poverty line or above the line. In the largest cities, seniors with no other sources of income live thousands of dollars below the poverty line.

The increase of \$120 a year proposed by the federal government as part of the new Seniors Benefit would barely be noticed by the majority of poor seniors. The National Council of Welfare believes the initial increase in the benefit should be \$500 a year per household.

We would also like to see the federal, provincial and territorial governments make a firm commitment toward wiping out poverty - both among seniors and among the population as a whole. The most recent poverty statistics suggest that the fight against poverty among seniors could be won within a very few years given the right combination of efforts by the two levels of government. Co-operation is essential if governments are going to address poverty among

seniors in large cities. Some provincial and territorial governments have income supplements for poor seniors, and many have programs to ease the burden of housing costs or local property taxes. As well, the high cost of living is a special problem in northern and remote communities.

Targeting of Benefits. Questions of targeting arise in every government program that is less than universal. Who deserves to get full benefits? Who deserves to get partial benefits? Who deserves to get no benefits at all?

The consensus that has emerged within the federal government is that people with net family incomes of more than \$25,921 a year deserve less than full benefits from government programs. Income of \$25,921 is already the upper limit for maximum benefits under the Child Tax Benefit and the GST credit. The same threshold would apply in the case of the new Seniors Benefit.

Is \$25,921 a reasonable income threshold for seniors? The answer to that question is less than obvious. Table 3 compares the proposed threshold to two other possible measures, the poverty lines or low cut-offs of Statistics Canada and the average incomes of seniors. The figures in the table are for 1994, the most recent year for income data collected and published by Statistics Canada.

<u>TABLE 3</u>		
<u>COMPARING THE PROPOSED THRESHOLD OF \$25,921 WITH OTHER INCOME BENCHMARKS FOR SENIORS, 1994</u>		
	Poverty Line in a City of 500,000+	Average Income
Unattached Senior Men	\$15,479	\$23,782
Unattached Senior Women	\$15,479	\$17,106
Couples 65 and Older	\$20,981	\$37,387

The threshold of \$25,921 is well above the poverty lines for all three categories of seniors. It is also above average income for unattached men and women, but well below the average income of senior couples.

The other issue in targeting is the cut-off point where benefits disappear entirely. Table 4 compares the Seniors Benefit with the Child Tax Benefit and the GST credit in terms of the reduction rates for benefits to people with incomes over \$25,921 and the cut-off points for benefits.

The wide range of cut-off points raises questions about the fairness of the system overall. Even with identical thresholds of \$25,921, the different sizes of the benefits and different reduction rates produce cut-offs that often seem illogical.

TABLE 4

**ESTIMATED BENEFITS UNDER FEDERAL PROGRAMS IN 2001,
FROM NET FAMILY INCOME OF \$25,921 TO CUT-OFF POINT**

Type of Benefit by Family Type	Full Benefit	Reduction Rate	Cut-Off Point
Seniors Benefit, Single Person	\$5,160	20%	\$51,721
Seniors Benefit, Couple	\$10,320	20%	\$77,521
Child Tax Benefit, Couple with One Child	\$1,020	2.5%	\$66,721
Child Tax Benefit, Couple with Two Children	\$2,040	5%	\$66,721
GST Credit, Single Person	\$199	5%	\$29,901
GST Credit, Couple	\$398	5%	\$33,881
GST Credit, Couple with Two Children	\$608	5%	\$38,081

In effect, the federal government is saying that single pensioners deserve absolutely no government assistance at all if their incomes exceed the cut-off of \$51,721, but married pensioners deserve help if they have incomes as high as \$77,521. Meanwhile, single pensioners and other single people are deemed to deserve no government help to offset the burden of the GST once their incomes top \$29,901.

In the case of benefits for seniors, our sister council, the National Advisory Council on Aging, had recommended a reduction rate of 12.5 percent. Applied to the specific proposals in the budget speech, that would produce a cut-off point of \$67,201 in outside income for a single pensioner and \$108,481 in outside family income for a pensioner couple.

Even if most Canadians believe that the threshold and cut-off points in the proposed new Seniors Benefit are reasonable, there is always the danger that governments will suddenly and arbitrarily replace reasonable limits with unreasonable ones. This is not an idle fear, as the events of recent years demonstrate clearly.

In 1989, when the clawback on Old Age Security was first proposed, the federal government set \$50,000 of individual net income as the upper limit for seniors to receive the full OAS pension. Just seven years later, the income limit endorsed by the federal government is \$25,921 of the entire family's net income.

Seniors have far fewer income options than younger people. Most of them are not in the paid labour force, so they cannot switch to higher-paying jobs or work longer hours or take a second job to make ends meet. Most of them are on fixed incomes from pension programs or receive interest from savings or income from investments that does not vary much from year to year.

The National Council of Welfare believes seniors need additional assurances from the federal government that the Seniors Benefit will not be trimmed simply because the current government or the next one changes its mind about what is a reasonable limit for benefits from government pension programs.

The Extent of the Transitional Arrangements. The budget paper outlining the new Seniors Benefit features a quote from the Prime Minister in the Commons on Feb. 28, 1996,

repeating a promise that "current" seniors would not lose their Old Age Security pension and Guaranteed Income Supplement: "I made a promise to current seniors that I repeat today: the OAS and GIS payments that you receive will not be reduced."

The budget speech appears to go beyond the Prime Minister's pledge, however, because it says that all people who are already 65 and older and all people who turn 65 by Dec. 31, 2001, and their spouses would have the option of receiving Old Age Security and the Guaranteed Income Supplement rather than the new Seniors Benefit.

The Finance Minister's version of the Prime Minister's promise is likely to be a very expensive one. As we saw in the previous chapter, the only people who would benefit by sticking with the current system are seniors with outside incomes in excess of \$30,000 a year. Adding an extra five years to the guarantee will cost the federal treasury hundreds of millions of dollars a year, and this additional money will go exclusively to well-to-do seniors.

Benefits Based on Family Income. Both individual and family incomes are used by the federal government to determine eligibility for different kinds of benefits. By and large, benefits that are delivered as tax cuts or tax reductions through the income tax system are based on individual income. Government programs that require contributions from individuals - notably Employment Insurance and the Canada and Quebec Pension Plans - are based primarily on individual income. Government programs paid entirely by governments are based on family income.

Family income has been used for many years as the standard under the Guaranteed Income Supplement and provincial and territorial welfare programs. If benefits for poor people are based on family income, it seems eminently fair to do the same with benefits for other people.

At the same time, there is the question of how the Seniors Benefit should be divided between spouses. The budget speech proposed to split benefits equally. That would seem to be an easy and logical way to proceed. However, the National Advisory Council on Aging has proposed that benefits be paid in "reverse proportions." Applied to our earlier example of a couple where one spouse had 60 percent of outside income and the other had 40 percent, the

spouse with the higher income would get 40 percent of the couple's total Seniors Benefit and the spouse with the lower income would get 60 percent.

The Use of Savings from the New System. The budget speech estimates that the new system overall would save the federal government \$200 million in its first year of operation in 2001. The savings would grow to \$2.1 billion a year in 2011 and \$8.2 billion a year in 2030.

Presumably, all these savings would go directly to the federal government. The budget paper talks repeatedly about the need to make benefits for seniors "affordable" and "sustainable" once the baby boomers born in 1946 and afterward start hitting 65 in 2011. Put more bluntly, the federal government believes it has to pocket the savings itself in order to be able to afford to pay benefits to seniors on a continuing basis.

The National Council of Welfare agrees that government programs have to be affordable and sustainable, but it would like to see at least a portion of any savings kept in the envelope for seniors and used to help seniors with little or no other sources of income. That would allow an increase larger than the increase of \$120 a year per household proposed in the budget speech and perhaps improvements in the Spouse's Allowance program as well.

According to the latest available taxation statistics for the year 1993, the amount of the age credit claimed by seniors was \$10.5 billion, and the value of the tax break at a rate of 17 percent was nearly \$1.8 billion. The 1994 federal budget announced cuts in the age credit for well-to-do seniors and estimated that the savings would eventually amount to \$300 million a year. That would put the current cost of the credit to the federal government in the neighbourhood of \$1.5 billion.

The amount of pension income claimed for the pension income credit was just over \$2 billion in 1993, and the value of the credit at a rate of 17 percent was about \$340 million.

The National Council of Welfare would like to see at least some of the savings from eliminating these two tax breaks go to the very poorest seniors. We would also like to see provincial and territorial governments who would automatically gain extra revenue because of the elimination of the two tax breaks use the money for income supplements or other programs for seniors.

CONCLUSION AND RECOMMENDATIONS

The National Council of Welfare views the budget proposals as a reasonable starting point for a public debate by Canadians of all ages on the kind of benefits the federal government should provide to seniors. We do not believe, however, that the budget proposals should be regarded as the final word.

The overall design of the Seniors Benefit is fair and reasonably easy to understand. The proposals to eliminate the current tax credits for age and the first \$1,000 of pension income would make the tax system simpler and more progressive.

At the same time, we have reservations about the puny increase proposed for the very poorest seniors, and we have grave reservations about whether the guarantees made by the present federal government can be protected against sharp and arbitrary inroads by future governments.

Given the importance of government benefits to seniors and the sweeping nature of the changes being proposed, we believe Canadians should have every opportunity to express their concerns to the federal government, and the federal government should take pains to listen to what people are saying.

The National Council of Welfare has three recommendations with respect to the budget proposals for seniors and three recommendations about the way the federal government should proceed.

1. The federal government should increase the proposed Seniors Benefit for the poorest seniors by \$500 a year per household rather than \$120 a year. An increase of \$120 a year would barely be noticed by poor seniors, and it would barely make a dent in the poverty statistics for seniors.
2. The federal government should commit itself to eradicating poverty - both among seniors and among the population at large - as one of its top priorities. This would be a particularly appropriate commitment in 1996, proclaimed by the United Nations as the

International Year for the Eradication of Poverty. The most recent poverty statistics suggest that the war on poverty among seniors could be won in short order if the political will was there.

3. The federal government should initiate discussions with provincial and territorial governments on ways of eliminating poverty among seniors. The discussions should centre on initiatives to help seniors living in the largest cities and unattached seniors. Part of the solution may lie in provincial and territorial income supplements or tax policies or housing programs.
4. Public consultations on the proposed Seniors Benefits should continue at least through the end of 1996 to allow all interested parties a chance to make their views known to the federal government. The new system would not come into force until Jan. 1, 2001, so there is no great rush to get it enacted into law.
5. The federal government should hold off introducing legislation - even draft legislation - to enact the budget proposals until consultations with the public are complete. Once legislation is introduced, it is too easy for governments to say no to changes, even thoughtful and worthwhile changes.
6. Finally, the Minister of Finance should listen to what Canadians have to say and to try to use their suggestions to improve the new system of benefits for seniors. The National Council of Welfare has been critical of the Finance Department and successive Ministers of Finance for the secretive way they go about their work and their penchant for making arbitrary decisions about social programs without consulting Canadians. We view the debate on federal benefits for seniors as an opportunity for the Minister and his Department to make a break with the past and to give ordinary people a real say in the development of government policy.

APPENDIX

The next six pages provide more details of the changes in benefits and taxes under the 1996 budget proposals for single pensioners and pensioner couples at different levels of outside income.

The first three tables show gains or losses for seniors under the proposed new system that would come into effect in 2001. The figures in the tables are calculated the same way as in Graphs A, B, and C in the text. The overall gains and losses in the far right-hand column are identical to the figures on the bars of the graphs.

The last three tables show the transitional arrangements that would be available to people who were 60 or older by Dec. 31, 1995. They would have the option of receiving Old Age Security for the rest of their lives or shifting at any time to the new Seniors Benefit. The tables correspond to Graphs D, E, and F in the text. Positive figures in the far right-hand column mean seniors would be better off choosing the Seniors Benefit. Minus figures mean they would be better off staying with Old Age Security.

**GAINS AND LOSSES UNDER THE PROPOSED NEW SYSTEM
OF BENEFITS FOR SENIORS, SINGLE PENSIONER, 2001**

Outside Income	Benefits Received			Income Taxes Paid			Overall Gain (Loss)
	Taxable OAS plus GIS	Non-Taxable Seniors Benefit	Gain (Loss) in Benefits	Taxes under Current System	Taxes under New System	Tax Savings (Increase)	
None	\$ 11,300	\$ 11,420	\$ 120	\$ 0	\$ 0	\$ 0	\$ 120
\$5,000	8,800	8,920	120	0	0	0	120
\$10,000	6,300	6,420	120	1,134	952	182	302
\$15,000	5,160	5,160	0	2,477	2,295	182	182
\$20,000	5,160	5,160	0	3,820	3,638	182	182
\$25,000	5,160	5,160	0	5,414	4,782	632	632
\$30,000	5,160	4,344	(816)	7,670	6,382	1,288	472
\$35,000	5,160	3,344	(1,816)	9,925	8,436	1,490	(326)
\$40,000	5,160	2,344	(2,816)	12,181	10,490	1,691	(1,125)
\$45,000	5,160	1,344	(3,816)	14,395	12,544	1,851	(1,965)
\$50,000	4,868	344	(4,524)	16,329	14,598	1,731	(2,793)
\$60,000	3,368	0	(3,368)	20,029	18,714	1,315	(2,053)
\$70,000	1,868	0	(1,868)	24,047	23,441	606	(1,262)
\$80,000	368	0	(368)	28,065	28,168	(103)	(471)
\$90,000	0	0	0	32,618	32,895	(277)	(277)
\$100,000	0	0	0	37,345	37,622	(277)	(277)

**GAINS AND LOSSES UNDER THE PROPOSED NEW SYSTEM
OF BENEFITS FOR SENIORS, ONE-INCOME COUPLE, 2001**

Outside Income	Benefits Received			Income Taxes Paid			Overall Gain (Loss)
	Taxable OAS plus GIS	Non-Taxable Seniors Benefit	Gain (Loss) in Benefits	Taxes under Current System	Taxes under New System	Tax Savings (Increase)	
None	\$ 18,320	\$ 18,440	\$ 120	\$ 0	\$ 0	\$ 0	\$ 120
\$5,000	15,820	15,940	120	0	0	0	120
\$10,000	13,320	13,440	120	0	0	0	120
\$15,000	10,820	10,940	120	1,137	850	287	407
\$20,000	10,320	10,320	0	2,413	1,981	432	432
\$25,000	10,320	10,320	0	4,007	3,138	869	869
\$30,000	10,320	9,504	(816)	6,262	4,743	1,520	704
\$35,000	10,320	8,504	(1,816)	8,518	6,991	1,527	(289)
\$40,000	10,320	7,504	(2,816)	10,773	9,045	1,729	(1,087)
\$45,000	10,320	6,504	(3,816)	12,987	11,099	1,889	(1,927)
\$50,000	10,028	5,504	(4,524)	14,922	13,153	1,769	(2,755)
\$60,000	8,528	3,504	(5,024)	18,613	17,300	1,312	(3,712)
\$70,000	7,028	1,504	(5,524)	22,595	21,950	645	(4,879)
\$80,000	5,528	0	(5,528)	26,613	26,677	(64)	(5,592)
\$90,000	5,160	0	(5,160)	31,166	31,404	(238)	(5,398)
\$100,000	5,160	0	(5,160)	35,893	36,131	(238)	(5,398)

**GAINS AND LOSSES UNDER THE PROPOSED NEW SYSTEM
OF BENEFITS FOR SENIORS, TWO-INCOME COUPLE, 2001**

Outside Income	Benefits Received			Income Taxes Paid			Overall Gain (Loss)
	Taxable OAS plus GIS	Non-Taxable Seniors Benefit	Gain (Loss) in Benefits	Taxes under Current System	Taxes under New System	Tax Savings	
None	\$ 18,320	\$ 18,440	\$ 120	\$ 0	\$ 0	\$ 0	\$ 120
\$5,000	15,820	15,940	120	0	0	0	120
\$10,000	13,320	13,440	120	0	0	0	120
\$15,000	10,820	10,940	120	925	683	242	362
\$20,000	10,320	10,320	0	2,268	1,692	576	576
\$25,000	10,320	10,320	0	3,611	2,849	762	762
\$30,000	10,320	9,504	(816)	4,954	4,396	558	(258)
\$35,000	10,320	8,504	(1,816)	6,307	5,933	374	(1,442)
\$40,000	10,320	7,504	(2,816)	7,771	7,276	495	(2,321)
\$45,000	10,320	6,504	(3,816)	9,599	8,619	981	(2,835)
\$50,000	10,320	5,504	(4,816)	11,490	10,020	1,470	(3,346)
\$60,000	10,320	3,504	(6,816)	15,401	13,559	1,842	(4,973)
\$70,000	10,320	1,504	(8,816)	19,851	17,098	2,753	(6,063)
\$80,000	10,320	0	(10,320)	24,199	20,979	3,220	(7,100)
\$90,000	9,428	0	(9,428)	28,102	25,087	3,015	(6,414)
\$100,000	8,528	0	(8,528)	32,210	29,235	2,974	(5,554)

**COMPARING THE SENIORS BENEFIT TO THE TRANSITIONAL OPTION,
SINGLE PENSIONER, 2001**

Outside Income	Benefits Received			Income Taxes Paid			Overall Gain (Loss)
	Taxable OAS plus GIS	Non-Taxable Seniors Benefit	Gain (Loss) in Benefits	Taxes under Option	Taxes under New System	Tax Savings	
None	\$ 11,300	\$ 11,420	\$ 120	\$ 0	\$ 0	\$ 0	\$ 120
\$5,000	8,800	8,920	120	995	0	995	1,115
\$10,000	6,300	6,420	120	2,338	952	1,386	1,506
\$15,000	5,160	5,160	0	3,681	2,295	1,386	1,386
\$20,000	5,160	5,160	0	5,024	3,638	1,386	1,386
\$25,000	5,160	5,160	0	6,447	4,782	1,666	1,666
\$30,000	5,160	4,344	(816)	8,501	6,382	2,120	1,304
\$35,000	5,160	3,344	(1,816)	10,555	8,436	2,120	304
\$40,000	5,160	2,344	(2,816)	12,609	10,490	2,120	(696)
\$45,000	5,160	1,344	(3,816)	14,663	12,544	2,120	(1,696)
\$50,000	4,868	344	(4,524)	16,598	14,598	2,000	(2,524)
\$60,000	3,368	0	(3,368)	20,306	18,714	1,592	(1,776)
\$70,000	1,868	0	(1,868)	24,324	23,441	883	(985)
\$80,000	368	0	(368)	28,342	28,168	174	(194)
\$90,000	0	0	0	32,895	32,895	0	0
\$100,000	0	0	0	37,622	37,622	0	0

**COMPARING THE SENIORS BENEFIT TO THE TRANSITIONAL OPTION,
ONE-INCOME COUPLE, 2001**

Outside Income	Benefits Received			Income Taxes Paid			Overall Gain (Loss)
	Taxable OAS plus GIS	Non-Taxable Seniors Benefit	Gain (Loss) in Benefits	Taxes under Option	Taxes under New System	Tax Savings	
None	\$ 18,320	\$ 18,440	\$ 120	\$ 0	\$ 0	\$ 0	\$ 120
\$5,000	15,820	15,940	120	995	0	995	1,115
\$10,000	13,320	13,440	120	2,338	0	2,338	2,458
\$15,000	10,820	10,940	120	3,544	850	2,695	2,815
\$20,000	10,320	10,320	0	4,820	1,981	2,839	2,839
\$25,000	10,320	10,320	0	6,244	3,138	3,106	3,106
\$30,000	10,320	9,504	(816)	8,298	4,743	3,555	2,739
\$35,000	10,320	8,504	(1,816)	10,352	6,991	3,361	1,545
\$40,000	10,320	7,504	(2,816)	12,406	9,045	3,361	545
\$45,000	10,320	6,504	(3,816)	14,460	11,099	3,361	(455)
\$50,000	10,028	5,504	(4,524)	16,394	13,153	3,241	(1,283)
\$60,000	8,528	3,504	(5,024)	20,096	17,300	2,795	(2,229)
\$70,000	7,028	1,504	(5,524)	24,114	21,950	2,164	(3,360)
\$80,000	5,528	0	(5,528)	28,132	26,677	1,455	(4,073)
\$90,000	5,160	0	(5,160)	32,685	31,404	1,281	(3,879)
\$100,000	5,160	0	(5,160)	37,412	36,131	1,281	(3,879)

**COMPARING THE SENIORS BENEFIT TO THE TRANSITIONAL OPTION,
TWO-INCOME COUPLE, 2001**

Outside Income	Benefits Received			Income Taxes Paid			Overall Gain (Loss)
	Taxable OAS plus GIS	Non-Taxable Seniors Benefit	Gain (Loss) in Benefits	Taxes under Option	Taxes under New System	Tax Savings	
None	\$ 18,320	\$ 18,440	\$ 120	\$ 0	\$ 0	\$ 0	\$ 120
\$5,000	15,820	15,940	120	647	0	647	767
\$10,000	13,320	13,440	120	1,990	0	1,990	2,110
\$15,000	10,820	10,940	120	3,333	683	2,649	2,769
\$20,000	10,320	10,320	0	4,676	1,692	2,984	2,984
\$25,000	10,320	10,320	0	6,019	2,849	3,170	3,170
\$30,000	10,320	9,504	(816)	7,362	4,396	2,966	2,150
\$35,000	10,320	8,504	(1,816)	8,705	5,933	2,772	956
\$40,000	10,320	7,504	(2,816)	10,048	7,276	2,772	(44)
\$45,000	10,320	6,504	(3,816)	11,756	8,619	3,137	(679)
\$50,000	10,320	5,504	(4,816)	13,525	10,020	3,506	(1,310)
\$60,000	10,320	3,504	(6,816)	17,065	13,559	3,506	(3,310)
\$70,000	10,320	1,504	(8,816)	21,111	17,098	4,013	(4,803)
\$80,000	10,320	0	(10,320)	25,219	20,979	4,329	(6,081)
\$90,000	9,428	0	(9,428)	28,961	25,087	3,873	(5,555)
\$100,000	8,528	0	(8,528)	32,915	29,235	3,680	(4,848)

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The Council consists of members drawn from across Canada and appointed by the Governor-in-Council. All are private citizens and serve in their personal capacities rather than as representatives of organizations or agencies. The membership of the Council has included past and present welfare recipients, public housing tenants and other low-income people, as well as educators, social workers and people involved in voluntary or charitable organizations.

Reports by the National Council of Welfare deal with a wide range of issues on poverty and social policy in Canada, including: income security programs, welfare reform, medicare, poverty lines and poverty statistics, the retirement income system, taxation, labour market issues, social services and legal aid.

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